



World Economic Outlook: IMF

For Prelims: World Economic Outlook, IMF, Global Financial Stability Report, World Economic Outlook.

For Mains: Important International Institutions, Effect of Policies & Politics of Countries on India's Interests, Growth & Development, World Economic Outlook, International Monetary Fund.

Why in News?

The latest edition of the [International Monetary Fund's \(IMF\) World Economic Outlook](#) cut its forecast for India's [Gross Domestic Product \(GDP\)](#) growth in FY 2022-23 to 8.2%, making it the **fastest-growing major economy in the world, almost twice faster than China's 4.4 %**.

What is the IMF's Growth Forecast?

▪ Indian Scenario:

- It has also lowered India's growth projection by 0.8 % points for 2022-23 from its previous forecast (9%) for the same period in 2021.
 - In 2021, **India registered a growth rate of 8.9 %**.
 - In 2023-24, India is estimated to grow at 6.9 %.
- With import bills rising due to high commodity and fuel prices, the IMF estimates **India's current account deficit to widen to 3.1%** in FY 2022-23 from **1.6% in FY 2021-22**.
- India was "suffering like many other countries because of the [Russia-Ukraine war](#) and negative terms of trade shock "due to higher food and energy prices weighing down trade balances.
- Additionally, **external demand was also softening as the rest of the world's growth was impacted**.

▪ Global Scenario:

- The IMF has projected **global growth at 3.6 % in 2022 and 2023**, 0.8 and 0.2 % lower than in the January 2022 forecast, respectively.
 - A **deceleration in global growth dampens India's growth prospects** especially because it would lead to lower demand for Indian exports.
- The downgrade largely reflects the war's direct impacts on Russia and Ukraine and global spillovers.
- The recent [lockdowns](#) in key manufacturing and trading hubs such as Shenzhen and Shanghai (China) due to the resurgence of covid **cases would likely compound supply disruptions elsewhere in the region and beyond**.

What are IMF's Recommendations?

▪ Monetary Tightening:

- It recommended **monetary tightening by central banks** to keep inflationary expectations in check amid global supply disruptions caused by the war in Ukraine.
 - The IMF warned that the war would "severely set back the global recovery," slow growth and stoke [inflation](#).

- **Monitoring of Rising Prices:**
 - Monetary **authorities should carefully monitor the pass-through of rising global prices** to domestic inflation expectations to calibrate their responses.
- **Targeted Income Support to Households:**
 - The IMF report backed **targeted income support by governments** to alleviate stress on household budgets in countries facing large price increases.

What is the International Monetary Fund?

- **About:**
 - The IMF was set up along with the [World Bank](#) after the [Second World War](#) to assist in the reconstruction of war-ravaged countries.
 - The two organizations agreed to be set up at a conference in Bretton Woods in the US. Hence, they are known as the **Bretton Woods twins**.
 - Created in 1945, the IMF is governed by and accountable to the 189 countries that make up its near-global membership. **India joined on 27th December 1945.**
 - The IMF's primary purpose is to **ensure the stability of the international monetary system** — the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other.
 - The Fund's mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability.
- **Reports by IMF:**
 - [Global Financial Stability Report](#).
 - [World Economic Outlook](#).
- **World Economic Outlook**
 - It is a survey by the IMF that is usually published twice a year in the months of April and October.
 - It analyzes and predicts global economic developments during the near and medium term.
 - In response to the growing demand for more frequent forecast updates, the WEO Update is published in January and July, between the two main WEO publications released usually in April and October.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Q. Global Financial Stability Report' is prepared by the (2016)

- (a) European Central Bank
- (b) International Monetary Fund
- (c) International Bank for Reconstruction and Development
- (d) Organization for Economic Cooperation and Development

Ans: (b)

Source: FE